



NATIONAL ASSOCIATION OF REALTORS®

The Voice For Real Estate®

500 New Jersey Avenue, N.W.

Washington, DC 20001-2020

Charles McMillan
CIPS, GRI
President

Dale A. Stinton
CAE, CPA, CMA, RCE
EVP/CEO

GOVERNMENT AFFAIRS
Jerry Giovaniello, Senior Vice President
Gary Weaver, Vice President
Joe Ventrone, Vice President
Jamie Gregory, Deputy Chief Lobbyist

The National Association of REALTORS® welcomes this opportunity to share our thoughts as a part of this hearing on “Strengthening Oversight and Preventing Fraud in FHA and other HUD Programs”. The members of the National Association of REALTORS® represent a wide variety of housing industry professionals committed to the development and preservation of the nation’s housing stock and making it available to the widest range of potential homebuyers. NAR has a long tradition of support for innovative and effective federal housing programs and we have worked diligently with the Congress to fashion housing policies that ensure federal housing programs meet their mission responsibly and efficiently.

FHA’s role in the market has expanded exponentially. Today, both the number of applications from consumers wanting a home loan, and from lenders wanting to qualify as Direct Endorsed lenders, has greatly expanded. In order to keep up with this demand, while ensuring the high underwriting and oversight standards required for FHA are ably enforced, the program must be given sufficient resources to operate safely and effectively.

FHA’s role in healthy housing markets has never been more apparent than today. As private lenders fled the market, FHA is now one of the primary sources of safe affordable mortgage financing for American families. Its market share has grown from less than 3% to more than 25% in a very short time. While this change was necessary to stabilize a weakened mortgage market, it also has fostered concern about the safety and soundness of FHA.

Despite media reports that FHA has become a “dumping ground” for subprime loans and high-risk borrowers, the FY 2008 independent Actuarial Review demonstrates that the FHA Mutual Mortgage Insurance Fund (MMIF) is fiscally sound, and projected to remain so over the next seven years. While the MMIF has experienced a decline in value, it remains above the

congressionally mandated 2% capitalization ratio. And projections expect that trend to continue. A high percentage of the decline in the MMIF was the result of falling house prices – something even the most prudent underwriting could not avoid. But now the quality of borrowers utilizing FHA has improved. Borrowers now have higher credit scores and lower loan-to-value ratios; these changes are expected to further improve the financial status of the FHA MMIF. The average credit score for an FHA borrower as of February 2008 was 626. Today the average credit score is now 695. This increase in credit quality of borrowers will have a significant positive impact on FHA. In testimony before this Committee on May 21st, HUD Secretary Donovan reported that they expect the FHA to earn \$1.7 billion in FY2010.

Media reports have also conveyed concern about FHA's oversight of loan originators. FHA has an approved group of lenders - called direct endorsers - who can perform necessary loan processing, underwriting, closing and insuring functions without HUD review. Lenders who are not direct endorsers must get approval from FHA of every loan. Using properly reviewed direct endorsers helps greatly with FHA's workload. In order for a lender to be a direct endorser for FHA, they must submit an application to HUD. The number of applications has skyrocketed in recent months, and we agree with the concerns expressed about both time to process applications – and necessary oversight over lenders.

To keep up with increasing demand, FHA needs to increase its capabilities. Unfortunately, FHA has not received the staffing and other resources commensurate with its role in financing mortgages. For years FHA has been held back by underinvestment in staff and information technology investment. Single Family FHA operates with a nation-wide staff of about 900, which is approximately 160 positions less than actually needed. FHA operates with technology that is an average of 18 years old. The authority to upgrade the dozens of incompatible systems, such as the 30 year old COBOL system, to web based customer centric applications is necessary for the agency's continued existence and future success.

As FHA's volume increases, it is imperative that FHA have the staff resources and the risk management processes in place to protect the Insurance Fund and the American taxpayer from unacceptable losses. We believe provisions Congress provided in S 896 (Public Law 111-22) regarding FHA loans will be a big step in providing the type of oversight that will be

necessary now that FHA is such a major force in the market. Increasing its resources, in the areas of staffing and technology, will ensure FHA is up to the task.

FHA continues to be a stable, affordable, safe option for American families seeking to purchase a home of their own. Congress needs to provide FHA with the means necessary to complete this important role. NAR looks forward to working with Congress to ensure that this critical component of America's housing finance system continues to serve the nation's homebuyers in a safe and efficient manner.